

EXHIBIT NO. ___(DEG-10)
DOCKET NO. UG-040640, *et al.* (consolidated)
2004 PSE GENERAL RATE CASE
WITNESS: DONALD E. GAINES

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UG-040640
Docket No. UE-040641
(consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Order Regarding the Accounting
Treatment for Certain Costs of the Company's
Power Cost Only Rate Filing.

Docket No. UE-031471 (consolidated)

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing
Deferral and Recovery of the Investment
And Costs Related to the White River
Hydroelectric Project.

Docket No. UE-032043 (consolidated)

FIRST EXHIBIT TO THE
PREFILED REBUTTAL TESTIMONY OF
DONALD E. GAINES (NONCONFIDENTIAL)
ON BEHALF OF PUGET SOUND ENERGY, INC.

NOVEMBER 3, 2004

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UG-040640 and UE-040641
WUTC v. PSE**

RESPONSE TO PSE DATA REQUEST TO PUBLIC COUNSEL

Request No: 77
Directed to: Simon ffitc
Date Received: October 12, 2004
Date Produced: October 21, 2004
Witness: Stephen Hill

PSE Data Request No. 77 to Public Counsel:

With respect to Exhibit No. ___(SGH-18), Mr. Hill uses a cost of long-term debt of 6.86%. Puget Sound Energy, Inc. ("PSE") has requested in this proceeding a cost of long-term debt of 6.88%, and Mr. Hill states in his testimony at Exhibit No. ___(SGH-1T), at 29, lines 6 through 8, that "I have reviewed the projected cost rates for preferred stock, trust preferred securities and long-term debt requested by the Company and found those cost rates to be reasonable."

- (a) Does Mr. Hill support PSE's requested cost of long-term debt of 6.88%?
- (b) If Mr. Hill supports PSE's requested cost of long-term debt of 6.88%, then please recast Exhibit No. ___(SGH-18) using a cost of long-term debt of 6.88%.
- (c) If Mr. Hill does not supports PSE's requested cost of long-term debt of 6.88%, then please provide all studies, analyses, data or other documentation referred to, relied upon, or prepared by Mr. Hill to support a cost of long-term debt of 6.86%.

RESPONSE:

Mr. Hill supports the requested long-term debt cost rate of 6.88%. The 6.86% cost rate included in his Exhibit No. ___(SGH-18) is an error. The amended exhibit is attached. The overall return increases to 8.02% from 8.01% and the pre-tax interest coverage (rounded to two decimal places) does not change.

Exhibit_(SGH-18)

**PUGET SOUND ENERGY, INC.
OVERALL COST OF CAPITAL**

<u>Type of Capital</u>	<u>PERCENT</u>	<u>COST RATE</u>	<u>WT. AVG. COST RATE</u>
Common Equity	40.00%	9.75%	3.90%
Preferred Stock	0.05%	8.51%	0.00%
Preferred Securities	6.74%	8.60%	0.58%
Long-term Debt	48.86%	6.88%	3.36%
Short-term Debt	<u>4.36%</u>	<u>4.00%</u>	<u>0.17%</u>
TOTAL CAPITAL	100.00%		8.02%

PRE-TAX INEREST COVERAGE = 2.46X

*Assuming the Company experiences, prospectively, an income tax rate of 35%, the pre-tax overall return would be 10.11% [$8.01\% - (0.17\% + 3.82\% + 0.58\%) = 4.00\% \div (1 - 40\%) = 6.00\% + (0.17\% + 3.82\% + 0.58\%)$]. That pre-tax overall return, 10.11%, divided by the weighted cost of debt, indicates a pre-tax interest coverage of 2.46 times.